

VZCZCXRO2286
RR RUEHAG RUEHDBU RUEHROV
DE RUEHKB #1396/01 3250939
ZNY CCCCC ZZH
R 210939Z NOV 07
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC 4298
INFO RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES
RUEAIIA/CIA WASHINGTON DC
RHMFISS/CDR USEUCOM VAHINGEN GE
RHEBAAA/DEPT OF ENERGY WASHDC
RUEKDIA/DIA WASHDC
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 BAKU 001396

SIPDIS

SIPDIS

E.O. 12958: DECL: 11/13/2017
TAGS: [PREL](#) [PGOV](#) [PBTS](#) [ENRG](#) [TX](#) [AJ](#)
SUBJECT: AZERBAIJAN: SOCAR DOES "RECON MISSION" TO
TURKMENISTAN'S OIL AND GAS SHOW

REF: BAKU 1256

Classified By: Ambassador Anne E. Derse, Reasons 1.b (b,d)

¶1. (C) SUMMARY: State Oil Company of Azerbaijan Vice President Elshad Nasirov traveled to Ashgabat for the November 14-15 Turkmenistan International Oil and Gas Exhibition and Conference, meeting with his GOTX counterparts on possible new energy cooperation. Having consulted with President Aliyev prior to his trip, Nasirov laid out "ideas, not proposals" to the GOTX as to why both countries would benefit from a "pure transit" of GOTX gas through Azerbaijan. SOCAR's travel to TIOGE, specifically facilitated by the GOTX, was a signal event in the ongoing rapprochement between the two countries' government-run energy sectors. Nasirov was able to present a compelling argument to the GOTX as to why it should consider exporting some of its gas through Azerbaijan, and why it should cooperate with Azerbaijan on offshore energy development before bilateral delimitation issues are solved. The USG should now encourage GOTX energy sector officials to reciprocate the visit, ideally well before the June 2008 Caspian International Oil and Gas Show.
END SUMMARY

PRE-TIOGE

¶2. (C) On November 13, SCA PDAS Steven Mann, SCA/CEN Director Pamela Spratlen, EEB Economic Officer Larry Wright and Embassy EnergyOff met in Baku with SOCAR Vice President Elshad Nasirov, Deputy Vice President Vitaliy Baylorbayev, and Advisor to SOCAR President Murat Haydarov, to discuss Azerbaijan-Turkmenistan energy cooperation, prior to VP Nasirov's departure for Ashgabat to participate in the 12th Annual Turkmenistan International Oil and Gas Conference and Exhibition (TIOGE).

¶3. (C) Mann and Nasirov agreed that Azerbaijani-Turkmen energy sector cooperation cannot wait for bilateral Caspian delimitation issues to be resolved. Nasirov shared with Mann the following three GOAJ "unofficial ideas" (vice formal proposals) for moving forward GOAJ-GOTX energy sector cooperation in the absence of any bilateral agreement on Caspian delimitation:

- a gas interconnector between Block One (Livani) and the existing Shah Deniz infrastructure;
- joint development of the offshore Sardar-Kapaz field, with the government share of the profit to be split evenly between Azerbaijan and Turkmenistan. In this regard, he said SOCAR

supported the Chevron proposal to the GOTX for joint development of this field;

- Azerbaijan buying Turkmen gas "at the Turkmen western border," and building a pipeline at its own expense).

Nasirov also said he would proffer an invitation to the June 2008 Caspian Oil and Gas show, held in Baku, in addition to inviting his GOTX interlocutors to come to Baku any other time.

14. (C) Mann said these ideas were all good ones. Nasirov should also tell his GOTX interlocutors why the GOAJ chose to work with the "supermajor" IOCs, so that the GOTX could better understand "the differences between a Chevron and a Buried Hill." Mann also suggested that Nasirov explain why the time to act was now, as in a few years Iraqi, North African and Egyptian supplies would be increasing. In response to Nasirov's questions as to whom the best GOTX interlocutor would be, Mann said the most influential and competent GOTX energy sector official was the Executive Director of the State Agency on Management and Use of Hydrocarbon Resources Bayrammurad Muradov.

15. (C) Nasirov said the main barrier to progress in the Southern Corridor project was still Turkey's 15 percent netback proposal (reftel). SOCAR's studies showed transiting gas past Turkey (for example to the main hub of Baumgarten) would not be economically viable, and as such the GOAJ could export its gas no farther than Turkey. Turkish insistence on this scheme would preclude sanctioning of Shah Deniz Phase Two, with the result that Turkey might not even get enough gas from Azerbaijan for itself.

BAKU 00001396 002 OF 003

POST-TIOGE

16. (C) On November 15, Nasirov discussed his TIOGE experience with Ambassador Derse and Embassy Energy Officer. He was upbeat about the degree of support the GOTX had offered for his trip, providing transport, meetings and ensuring scarce hotel rooms were made available, which he took as a positive signal. He had three separate meetings with GOTX officials:

- Vice-Premier Tachberdi Tagiev
- Minister of Oil, Gas and Natural Resources Baymyrad Khodzhamuhamedov
- The Head of GOTX Neftegaz Construction (Inshaat)

17. (C) Nasirov said he had consulted with President Ilham Aliyev before he left on what he called a "reconnaissance mission" to Turkmenistan. He said that while he was not authorized to give official proposals, President Aliyev approved of the first two of the three "ideas" he had mentioned to Mann. According to Nasirov, President Aliyev does not want to offer to buy GOTX gas, as he thought it would render the GOAJ the same as Russia, Turkey, Iran and other gas customers in the eyes of the GOTX.

18. (C) Per President Aliyev's guidance, Nasirov pitched both the interconnector and the Sardar-Kapaz joint development deals. Considering the former, Nasirov said that the GAJ was willing to split funding for it, 60 million from each side, but that the GOAJ was willing to foot the whole USD 120 million it would take to build it even without guarantees from the GOTX as to assured volumes. Nasirov said to the GOTX that without alternatives Turkmenistan would never get a good price for its gas from Russia and Iran, but with an interconnector even if it remains empty, the price it can get for Turkmen gas would increase greatly.

19. (C) Nasirov told his GOTX interlocutors that the GOTX was losing money by selling gas to Russia and Iran at sub-market prices (USD 75 and USD 100 per thousand cubic meters -- tcm

-- respectively). Azerbaijan was offering the GOTX "pure transit" for its gas, which would allow GOTX to sell directly to Georgia, Turkey or farther downstream. Azerbaijan needs GOTX gas because its 10-12 billion cubic meters annually (bcm/a) that will be available for export will not be enough to sanction anything more than TGI: Azerbaijan will be "tied to Greece and Italy." But with GOTX gas transiting Azerbaijan, other pipelines -- such as Nabucco -- can be sanctioned and Azerbaijan can get higher prices for its gas elsewhere.

¶10. (C) Nasirov said that his GOTX interlocutors avoided active discussions and "just listened," although all three admitted they had been thinking about exporting through Azerbaijan, and Vice-Premier Tagiev did say that "if we construct anything, it will be the interconnector." Oil and Gas Minister Khodzhamuhamedov had arranged a TV interview for Nasirov, but Nasirov explained to him why the less publicity surrounding SOCAR's visit to TIOGE the better, so as not to anger the Russians and Iranians, and as such there was no interview.

¶11. (C) Asked about his impressions after this, his first visit to Ashgabat, Nasirov said he was "disappointed" with respect to the reality of Ashgabat in contrast to its exotic image in Azerbaijan. His "five-star hotel" didn't have hot water or a reasonable selection of food. There was sixty percent unemployment and even the driver assigned to him by the GOTX, who had a relatively high position, was deeply critical of the President and of the current situation. Nasirov said he worried the time was approaching when the new President, more comfortable in his position, "stops listening" to outside advice as the cult of personality surrounding him intensifies. According to Nasirov, "the time to come here (Ashgabat) was in January; now it is late."

¶12. (C) Nasirov said part of this reconnaissance mission was to see whether the GOTX mentioned either the Sardar-Kapaz field or ownership rights to the ACG fields, adding that none of his GOTX interlocutors mentioned either issue. Per guidance from President Aliyev, he invited his interlocutors to the 2008 CIOGE in Baku, in addition to inviting them any other time their schedule permitted, at any level. Of Executive Director of the State Agency on Management and Use of Hydrocarbon Resources Bayrammurad Muradov, Nasirov said

BAKU 00001396 003 OF 003

that he had learned that he was the only person to whom the Turkmen President listened on energy issues, commenting that "he'll probably be jailed within a year or two."

¶13. (C) On his meeting with European Commissioner for Energy Affairs Piebalgs, Nasirov told him that the GOAJ had the veto right over Shah Deniz Phase Two development. According to Nasirov, the GOAJ wants to transit its gas through Turkey to improve its relations with the EU, which the GOAJ believes will help it politically on the Nagorno-Karabakh conflict. But the GOAJ wants direct access to European markets, and will not accept the Turkish 15 percent netback proposal. He told Piebalgs that the EU has to "impose European transit principles and vision" on Turkey. Piebalgs had not been aware of the details of this problem, and they agreed to discuss it further November 30 in Brussels.

¶14. (C) In response to the Ambassador's question as to how the USG could best help further GOTX-GOAJ energy sector cooperation, Nasirov said that Washington should "keep quiet" about its efforts in this regard. According to Nasirov, the more done quietly behind the scenes but the less said in public, the better.

¶15. (C) COMMENT: SOCAR's travel to TIOGE, specifically facilitated by the GOTX, was a signal event in the ongoing rapprochement between the two countries' government-run energy sectors. Nasirov was able to present a compelling argument to the GOTX as to why it should consider exporting

some of its gas through Azerbaijan, and why it should cooperate with Azerbaijan on offshore energy development before bilateral delimitation issues are solved. The USG should now encourage GOTX energy sector officials to reciprocate the visit, ideally well before the June 2008 Caspian International Oil and Gas Show.

¶16. (U) Mann did not have the opportunity to review this message.
DERSE